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Michigan's Credit Union Law Needs an Overhaul

By State Sen. Shirley Johnson (R-Troy)

Laws written by legislatures evolve over time, subject to changes in society, technology, and the economy. If this weren't the case, one set of laws could be permanently etched in stone — and legislatures, congresses and parliaments would be out of business.

The self-evident need to periodically review and update existing laws finds no better example than in Michigan's outdated credit union legislation.

Seventy-eight years ago last spring, the Michigan Legislature approved the Michigan Credit Union Act, the bill which established ground rules for organizing and operating credit unions anywhere in Michigan under state charter. Credit unions are not-for-profit financial cooperatives, owned by their members and operated for the benefit of the working or middle-income people who make up the vast majority of their membership. Nearly 4 ½ million Michigan citizens are credit union members.

Credit unions still have that same cooperative, not-for-profit structure today, but they typically serve a different type of member and operate in a very different environment today. Indeed, to say that Michigan in general and the financial services marketplace in particular have changed dramatically since 1925 is only to state the obvious.

It's true that, with numerous amendments and modifications, the Michigan Credit Union Act has served Michigan credit unions and consumers very well over the years. A set of major revisions was in fact enacted as recently as 1986. More recently, however, it has become increasingly clear that Michigan's credit union laws and regulations are in need of a significant and comprehensive overhaul.

The process has been given the name "modernization," and the name is appropriate. Times have changed, and modernization is certainly what is needed — a lot has happened since 1986, let alone 1925. Job and family mobility, rising incomes and consumer debt, and the emerging dominance of small businesses and entrepreneurs have rendered the old model of credit union membership obsolete. The emergence of electronic banking, complex new products and services and the growing overlap between financial service and insurance providers are completely changing the rules of the financial services marketplace.

Today's credit unions serve a mobile and changing membership, and they need to be empowered to establish their own guidelines for credit union membership, subject only to the safety and soundness provisions enforced by state regulators. They need to provide today's entrepreneurs and small businesses with effective commercial loans and other services. They need to be able to effectively counter unscrupulous "pay-day" lenders by offering lower-income people a fair and affordable alternative. Modernization would address all these issues, and more as well.

As a member of the Michigan Senate, I'm proud to have sponsored Senate Bill 496, a bill introduced in the Senate in May, which would modernize the Michigan Credit Union Act. This bill was the result of many months of study and review by both Michigan credit unions and state regulators. State Rep. Clark Bisbee (R-Jackson) has introduced a similar credit union modernization bill in the Michigan House, House Bill 4694.

SB 496 was successfully reported out of Senate Banking & Financial Institutions Committee and sent to the full Senate floor just prior to the Legislature's summer adjournment. We are hopeful that the Senate will act on this legislation in the fall.

Independent studies have confirmed time and time again that consumers benefit from a strong and viable credit union presence in Michigan's banking and financial services industry. Michigan's working families typically receive better rates on loans, better returns on savings and better standards of service when credit union competition is part of the mix. Every Michigan citizen stands to benefit by the modernization of our state's antiquated credit union laws.

In the best interests of Michigan consumers and the future of our state's economy, it's time to move forward with this legislation and modernize the Michigan Credit Union Act.

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